

Message Text

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TO AMEMBASSY PRAGUE

C O N F I D E N T I A L STATE 170853

FOR THE AM0ASSADOR FROM ANDREWS

E.O. 11652: N/A

TAGS: OGEN

SUBJECT: OFFICIAL-INFORMAL

1. PERSONNEL ITEM. IN CASE THE EMBASSY MAY NOT HAVE ALREADY HEARD VIA THE NORMAL PER CHANNEL, PAUL MOLINEAUX, WHO WAS "PANELED IN PRINCIPLE" TO REPLACE BOB FROWICK NEXT SUMMER (WHICH WAS DISCUSSED BY CARL SCHMIDT AND HIM AT THE GARMISCH CONFERENCE IN MAY), HAS OPTED FOR AN ASSIGNMENT IN THE MANAGEMENT BUREAU IN THE DEPARTMENT. PER HAS SUBSEQUENTLY PANELED FSO-3 ROBERT BENTLEY TO REPLACE FROWICK. HE WILL GO INTO CZECH LANGUAGE TRAINING NEXT MONTH.

2. A NEW CLAIMS/GOLD PROPOSAL. WE HAVE DECIDED TO GO AHEAD AND HAVE YOU PRESENT A NEW PROPOSAL ON THE CLAIMS/GOLD ISSUE TO THE GOC. WE HAVE NOT YET DECIDED ON THE TIMING OF THE NEGOTIATIONS BUT WANT TO HAVE A PROPOSAL
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READY WHEN WE JUDGE IT TIME TO MOVE ON THIS MATTER. IN THE FOLLOWING PARAGRAPHS, WE ARE PROVIDING YOU WITH A PRELIMINARY, UNCLEARED, RPT, UNCLEARED DRAFT PROPOSAL. WE REALIZE THAT IT MAY BE SUBSTANTIALLY MODIFIED AS A RESULT OF THE CLEARANCE PROCESS BUT WANT TO INFORM YOU AS EARLY AS POSSIBLE OF WHAT WE ARE DOING. WE WOULD APPRECIATE ANY COMMENTS YOU MAY HAVE ON THIS INITIAL PROPOSAL.

ON THE OTHER HAND, WE WILL NOT EXPECT A RESPONSE UNTIL AFTER WE HAVE SENT A CLEARED VERSION TO YOU, WHICH WE HOPE TO DO IN THE NEAR FUTURE.

3. THE SUBSTANCE OF A NEW PROPOSAL. SENATOR LONG INDICATED TO DAVID SCOTT IN 1976 THAT HE WOULD ACCEPT A LUMP-SUM, 50 OF PRINCIPAL SETTLEMENT, I.E., \$32 MILLION. WE THINK WE SHOULD OBTAIN AT LEAST THIS MUCH TO ENSURE THAT LONG WILL APPROVE A NEW AGREEMENT. WE SHOULD ALSO MAKE SOME PROVISION FOR POST-1958 CLAIMS, MOST OF WHICH THE FOREIGN CLAIMS SETTLEMENT COMMISSION AND WE ASSUME INVOLVE INHERITANCES. THE COMMISSION ESTIMATED IN 1973 THAT THESE CLAIMS PROBABLY NUMBER FROM 600-700 AND AMOUNT TO SOME \$2 MILLION. WE DO NOT KNOW FOR CERTAIN HOW MUCH IS INVOLVED BUT DO NOT THINK IT CAN BE VERY MUCH. IN THESE CIRCUMSTANCES, WE THINK AN EXTRA \$3 MILLION IS ENOUGH. THREE MILLION DOLLARS MORE RAISES OUR NEGOTIATING GOAL TO \$35 MILLION, PRECISELY WHAT YOU HAVE SUGGESTED SHOULD BE OUR POSITION. THIS SUM, IF WE CAN OBTAIN IT, WOULD AMOUNT TO A SETTLEMENT OF ABOUT 58 CENTS ON THE DOLLAR OF THE PRINCIPAL OF APPROXIMATELY \$75.5 MILLION (THE OLD PRINCIPAL OF \$72.5 MILLION ADDED TO OUR ESTIMATE OF \$3 MILLION OF NEW CLAIMS). A 58 SETTLEMENT IS LESS THAN THOSE WE HAVE NEGOTIATED WITH SOME OTHER EE COUNTRIES (63 IN BULGARIA'S CASE, 73 IN YUGOSLAVIA'S) AND MAY BE MORE ACCEPTABLE TO

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THE GOC IF CONSTRUED IN THIS MANNER.

4. ASSUMING A TARGET SETTLEMENT OF A LUMP-SUM PAYMENT OF \$35 MILLION, WE THINK WE SHOULD BEGIN THE NEGOTIATIONS BY ASKING FOR AT LEAST \$40 MILLION. WE SUGGEST THAT THIS FIGURE BE JUSTIFIED BY CITATION OF THE FOLLOWING POINTS.

(A) WE MUST OBTAIN A SETTLEMENT SATISFACTORY TO THE CONGRESS, AS REQUIRED BY SECTION 408 OF THE TRADE ACT OF 1974. IN REALITY, THIS MEANS SATISFYING SENATORS LONG AND GRAVEL, THE AUTHORS OF THAT SECTION. TO PUT THE MATTER AS SIMPLY AND SUCCINCTLY AS POSSIBLE, THEY CONSIDER THE COMPENSATION PROVIDED FOR IN THE 1974 AD REFERENDUM AGREEMENT TO BE COMPLETELY INSUFFICIENT. WE CANNOT OBTAIN THEIR APPROVAL OF A NEW AGREEMENT UNLESS WE HAVE OBTAINED A SUBSTANTIALLY HIGHER SETTLEMENT. IN THIS REGARD, WE HAVE LEARNED SINCE 1974 THAT THERE IS A SIZEABLE NUMBER OF UNJUDICATED CLAIMS WHICH HAVE ARISEN SINCE 1958. WE MUST MAKE PROVISION FOR THESE CLAIMANTS IN A NEW AGREEMENT.

(B) FURTHERMORE, INFLATION HAS ERODED THE VALUE OF THE COMPENSATION AGREED TO IN THE 1974 SETTLEMENT. THE MID-1978 DOLLAR IS WORTH ONLY 74.90 OF THE 1974 DOLLAR.

ALTHOUGH THE PERCENTAGE COMPENSATION AGREED TO IN THE 1974 SETTLEMENT WAS COMPARABLE TO THAT OF SEVERAL U.S. CLAIMS SETTLEMENT AGREEMENTS WITH OTHER EE COUNTRIES, THESE SETTLEMENTS WERE NEGOTIATED YEARS AGO WHEN THEIR DOLLAR VALUE WAS CONSIDERABLY HIGHER THAN THAT OF COMPARABLE, CONTEMPORARY SETTLEMENTS WOULD BE.

(C) IN ADDITION, SINCE 1974, THE VALUE OF THE GOLD IN THE CUSTODY OF THE TRIPARTITE COMMISSION HAS DRAMATICALLY INCREASED IN VALUE, FROM APPROXIMATELY \$25 MILLION TO APPROXIMATELY \$105 MILLION. IT APPEARS LIKELY THAT GOLD WILL CONTINUE TO APPRECIATE IN THE FORSEEABLE FUTURE.

5. THE 1974 AGREEMENT. WE ARE LOOKING INTO WHETHER, EXCEPT FOR THE NECESSARY ADJUSTMENT OF THE AMOUNT AND
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TIMING OF THE COMPENSATION TO BE PAID TO U.S. CLAIMANTS, THE 1974 AD REFERENDUM AGREEMENT STILL STANDS ON ITS MERITS. WE MAY BE ABLE TO ACCEPT RETENTION OF ALL OF ITS PROVISIONS EXCEPT THOSE ON COMPENSATION FOR NATIONALIZATION CLAIMS. FORTUNATELY, OUR POSITION ON THIS POINT AGREES WITH THAT OF THE GOC, WHICH HAS INFORMED US THAT IT WOULD PREFER NOT TO NEGOTIATE A COMPLETELY NEW AGREEMENT INASMUCH AS IT CONSIDERS THE 1974 AGREEMENT TO BE COMPLETELY ACCEPTABLE. THE GOC HAS ALREADY OFFERED TO ADJUST ITS "MODALITIES" BY INDICATING IT COULD AGREE TO A LUMP-SUM PAYMENT. BY ACCEPTING THE REMAINDER OF THE 1974 AGREEMENT IN TOTO, WE WOULD BE MORE PERSUASIVE IN ATTEMPTING TO CONSTRUCT PROVISION FOR INCREASED COMPENSATION AS PART OF THIS ADJUSTMENT OF "MODALITIES". WE COULD ALSO POINT OUT THAT, DESPITE THE RAVAGES OF INFLATION, WE WOULD BE CONTENT WITHOUT AN UPWARD ADJUSTMENT OF THE OTHER PAYMENTS TO US, BESIDES CLAIMS COMPENSATION, SPECIFIED IN THE 1974 AGREEMENT.

6. NEGOTIATING STRATEGY. AS INDICATED ABOVE IN PARAS 3 AND 4, WE THINK OUR INITIAL NEGOTIATING POSITION OUGHT TO BE REVISION OF THE 1974 AGREEMENT TO PROVIDE FOR A LUMP-SUM CLAIMS SETTLEMENT OF \$40 MILLION AND RETENTION OF ITS REMAINING PROVISIONS. OUR BOTTOM-LINE FIGURE, AS MENTIONED ABOVE IN PARA 2, IS A SETTLEMENT OF \$35 MILLION.

7. PERHAPS THE STRONGEST INDUCEMENT TO THE GOC TO RENEGOTIATE THIS ISSUE TO OUR SATISFACTION IS THE EFFECT SUCH ACTION COULD HAVE ON OUR BILATERAL RELATIONS. SUCCESSFUL RESOLUTION OF THIS ISSUE COULD BE A SIGNIFICANT STEP TOWARD EVENTUAL EXTENSION TO CZECHOSLOVAKIA OF MFN TARIFF STATUS. WE MAY, FOR EXAMPLE, BE ABLE TO USE THE ARMITAGE/SCHWEBEL FORMULA, I.E., A LETTER STATING THAT
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CZECHOSLOVAKIA WOULD BE CONSIDERED FOR MFN AT A TIME NO
LATER THAN THE USSR IS AFTER JACKSON-VANIK IS AMENDED
(WE ARE ALSO LOOKING INTO WHETHER THE HUNGARIAN AGREEMENT

RENDERS THIS IDEA OBSOLETE). ALSO, THE SUCCESSFUL RESOLU-
TION OF THIS ISSUE WOULD SYMBOLIZE A DESIRE ON THE PART OF
BOTH SIDES TO IMPROVE RELATIONS. THE INFLUENCE OF A
SUCCESSFUL NEGOTIATION OF THIS ISSUE ON BILATERAL RELATIONS
AND THE FINANCIAL WINDFALL THE GOC STANDS TO GAIN THEREBY
ARE OUR MOST PERSUASIVE NEGOTIATING POINTS. VANCE

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